STRATEGIC HOTELS & RESORTS, INC
Form 10-Q
November 12, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2013

or

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number: 001-32223

STRATEGIC HOTELS & RESORTS, INC.
(Exact name of registrant as specified in its charter)

Maryland	33-1082757
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
200 West Madison Street, Suite 1700, Chicago, Illinois	60606-3415
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (312) 658-5000

Former name, former address and former fiscal year, if changed since last report:

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	Accelerated filer	o
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No x

The number of shares of common stock (par value $0.01 per share) of the registrant outstanding as of November 11, 2013 was 205,582,838.

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WHERE TO FIND MORE INFORMATION:

We maintain a website at www.strategichotels.com. Through our website, we make available, free of charge, our annual proxy statement, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (SEC). The SEC maintains a website that contains these reports at www.sec.gov.

This report (and Exhibit 99.1 hereto) contains registered trademarks that are the exclusive property of their respective owners, which are companies other than us, including Fairmont®, Four Seasons®, Hyatt®, InterContinental®, JW Marriott®, Loews®, Marriott®, Renaissance®, Ritz-Carlton® and Westin®. None of the owners of these trademarks, their affiliates or any of their respective officers, directors, agents or employees has or will have any liability or responsibility for any financial statements, projections or other financial information or other information contained in this report.

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS.
STRATEGIC HOTELS & RESORTS, INC. AND SUBSIDIARIES (SHR)
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(In Thousands, Except Share Data)

	September 30, 2013	December 31, 2012
Assets		
Investment in hotel properties, net*	$1,915,212	$1,970,560
Goodwill	40,359	40,359
Intangible assets, net of accumulated amortization of $12,143 and $10,812*	29,185	30,631
Investment in unconsolidated affiliates	106,914	112,488
Cash and cash equivalents*	79,801	80,074
Restricted cash and cash equivalents*	75,183	58,579
Accounts receivable, net of allowance for doubtful accounts of $1,611 and $1,602*	52,794	45,620
Deferred financing costs, net of accumulated amortization of $10,887 and $7,049*	9,931	11,695
Deferred tax assets	3,027	2,203
Prepaid expenses and other assets*	48,901	54,208
Total assets	$2,361,307	$2,406,417
Liabilities, Noncontrolling Interests and Equity		
Liabilities:		
Mortgages and other debt payable*	$1,162,567	$1,176,297
Bank credit facility	137,000	146,000
Accounts payable and accrued expenses*	218,410	228,397
Deferred tax liabilities	47,146	47,275
Total liabilities	1,565,123	1,597,969
Commitments and contingencies (see note 13)		
Noncontrolling interests in SHR's operating partnership	7,404	5,463
Equity:		
SHR's shareholders' equity:		
8.50% Series A Cumulative Redeemable Preferred Stock ($0.01 par value per share; 4,148,141 shares issued and outstanding; liquidation preference $25.00 per share plus accrued distributions and $103,704 in the aggregate)	99,995	99,995
8.25% Series B Cumulative Redeemable Preferred Stock ($0.01 par value per share; 3,615,375 shares issued and outstanding; liquidation preference $25.00 per share plus accrued distributions and $90,384 in the aggregate)	87,064	87,064
8.25% Series C Cumulative Redeemable Preferred Stock ($0.01 par value per share; 3,827,727 shares issued and outstanding; liquidation preference $25.00 per share plus accrued distributions and $95,693 in the aggregate)	92,489	92,489
Common stock ($0.01 par value per share; 350,000,000 shares of common stock authorized; 205,527,049 and 204,308,710 shares of common stock issued and outstanding)	2,055	2,043
Additional paid-in capital	1,710,267	1,730,535
Accumulated deficit	(1,244,216)	(1,245,927)
Accumulated other comprehensive loss	(44,896)	(58,871)
Total SHR's shareholders' equity	702,758	707,328
Noncontrolling interests in consolidated affiliates	86,022	95,657
Total equity	788,780	802,985

Total liabilities, noncontrolling interests and equity	$2,361,307	$2,406,417

See accompanying notes to unaudited condensed consolidated financial statements.

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STRATEGIC HOTELS & RESORTS, INC. AND SUBSIDIARIES (SHR)
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS - Continued
(In Thousands)

	September 30, 2013	December 31, 2012
*Consolidated Variable Interest Entity's Assets and Liabilities included in the above balances (see note 5):		
Investment in hotel properties, net	$340,069	$340,456
Intangible assets, net of accumulated amortization of $390 and $113	—	277
Cash and cash equivalents	6,745	2,596
Restricted cash and cash equivalents	13,358	3,859
Accounts receivable, net of allowance for doubtful accounts of $90 and $111	4,543	7,508
Deferred financing costs, net of accumulated amortization of $1,493 and $398	2,948	4,043
Prepaid expenses and other assets	8,354	16,762
Mortgages and other debt payable	186,278	190,000
Accounts payable and accrued expenses	21,357	10,242

See accompanying notes to unaudited condensed consolidated financial statements.

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STRATEGIC HOTELS & RESORTS, INC. AND SUBSIDIARIES (SHR)
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands, Except Per Share Data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues:				
Rooms	$144,150	$119,067	$393,072	$323,709
Food and beverage	69,625	63,283	221,260	197,693
Other hotel operating revenue	22,417	21,040	65,132	59,338
Lease revenue	1,416	1,175	3,776	3,505
Total revenues	237,608	204,565	683,240	584,245
Operating Costs and Expenses:				
Rooms	38,525	32,069	110,711	90,628
Food and beverage	56,359	47,355	170,763	143,065
Other departmental expenses	59,401	52,908	173,827	153,557
Management fees	7,024	6,182	20,767	18,012
Other hotel expenses	14,771	13,988	47,826	40,360
Lease expense	1,202	1,114	3,584	3,425
Depreciation and amortization	26,244	25,649	80,459	76,416
Impairment losses and other charges	728	—	728	—
Corporate expenses	5,487	6,956	18,880	23,632
Total operating costs and expenses	209,741	186,221	627,545	549,095
Operating income	27,867	18,344	55,695	35,150
Interest expense	(21,106)	(19,942)	(63,871)	(58,627)
Interest income	12	42	45	122
Equity in earnings (losses) of unconsolidated affiliates	451	(2,257)	3,252	(2,054)
Foreign currency exchange (loss) gain	(9)	(996)	177	(1,169)
Other (expenses) income, net	(832)	436	45	1,365
Income (loss) before income taxes and discontinued operations	6,383	(4,373)	(4,657)	(25,213)
Income tax benefit (expense)	430	600	(1,121)	(215)
Income (loss) from continuing operations	6,813	(3,773)	(5,778)	(25,428)
Loss from discontinued operations, net of tax	—	—	—	(535)
Net Income (Loss)	6,813	(3,773)	(5,778)	(25,963)
Net (income) loss attributable to the noncontrolling interests in SHR's operating partnership	(29)	17	22	126
Net loss attributable to the noncontrolling interests in consolidated affiliates	3,018	1,241	7,467	891
Net Income (Loss) Attributable to SHR	9,802	(2,515)	1,711	(24,946)
Preferred shareholder dividends	(6,042)	(6,042)	(18,125)	(18,125)
Net Income (Loss) Attributable to SHR Common Shareholders	$3,760	$(8,557)	$(16,414)	$(43,071)
Amounts Attributable to SHR:				
Income (loss) from continuing operations	$9,802	$(2,515)	$1,711	$(24,411)
Loss from discontinued operations	—	—	—	(535)
Net income (loss)	$9,802	$(2,515)	$1,711	$(24,946)

Basic Income (Loss) Per Share:				
Income (loss) from continuing operations attributable to SHR common shareholders	$0.02	$(0.04)	$(0.08)	$(0.22)
Loss from discontinued operations attributable to SHR common shareholders	—	—	—	—
Net income (loss) attributable to SHR common shareholders	$0.02	$(0.04)	$(0.08)	$(0.22)
Weighted average shares of common stock outstanding	206,767	206,523	206,163	198,872
Diluted Income (Loss) Per Share:				
Income (loss) from continuing operations attributable to SHR common shareholders	$—	$(0.05)	$(0.11)	$(0.22)
Loss from discontinued operations attributable to SHR common shareholders	—	—	—	—
Net income (loss) attributable to SHR common shareholders	$—	$(0.05)	$(0.11)	$(0.22)
Weighted average shares of common stock outstanding	220,258	218,182	217,553	198,872

See accompanying notes to unaudited condensed consolidated financial statements.

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STRATEGIC HOTELS & RESORTS, INC. AND SUBSIDIARIES (SHR)
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In Thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net Income (Loss)	$6,813	$(3,773)	$(5,778)	$(25,963)
Other comprehensive income:				
(Loss) gain on currency translation adjustments	(901)	341	(114)	634
Gain on derivatives and other activity	3,685	4,251	14,089	11,757
Other comprehensive income	2,784	4,592	13,975	12,391
Comprehensive Income (Loss)	9,597	819	8,197	(13,572)
Comprehensive (income) loss attributable to the noncontrolling interests in SHR’s operating partnership	(40)	(2)	(35)	72
Comprehensive loss attributable to the noncontrolling interests in consolidated affiliates	3,018	1,241	7,467	891
Comprehensive Income (Loss) Attributable to SHR	$12,575	$2,058	$15,629	$(12,609)

See accompanying notes to unaudited condensed consolidated financial statements.

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STRATEGIC HOTELS & RESORTS, INC. AND SUBSIDIARIES (SHR)
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	Nine Months Ended September 30, 2013	2012
Operating Activities:		
Net loss	$(5,778)	$(25,963)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Deferred income tax benefit	(954)	(906)
Depreciation and amortization	80,459	76,416
Amortization of deferred financing and interest rate swap costs	9,082	9,455
Non-cash impairment losses and other charges	728	—
Equity in (earnings) losses of unconsolidated affiliates	(3,252)	2,054
Share-based compensation	4,143	6,455
Loss on disposal of assets, net of tax	755	—
Foreign currency exchange (gain) loss	(177)	1,704
Recognition of deferred gains	(154)	(150)
Mark to market of derivative financial instruments	(9,115)	(4,338)
Increase in accounts receivable	(8,923)	(12,480)
Increase in other assets	(1,950)	(2,340)
Increase (decrease) in accounts payable and accrued expenses	17,134	(5,229)
Net cash provided by operating activities	81,998	44,678
Investing Activities:		
Acquisition of hotel investment	—	(351,083)
Proceeds from sale of assets	6,754	1,991
Investment in unconsolidated affiliate	—	(75)
Cash received from unconsolidated affiliates	22,879	7,050
Unrestricted cash acquired through acquisition	—	183
Acquisition of note receivable	—	(9,457)
Capital expenditures	(52,972)	(37,021)
Increase in restricted cash and cash equivalents	(15,227)	(10,377)
Net cash used in investing activities	(38,566)	(398,789)
Financing Activities:		
Proceeds from issuance of common stock	—	119,600
Equity issuance costs	—	(5,538)
Preferred stock tender costs	—	(54)
Borrowings under bank credit facility	45,000	275,000
Payments on bank credit facility	(54,000)	(201,000)
Proceeds from mortgages	—	190,000
Payments on mortgages and other debt	(13,263)	(9,487)
Contributions from holders of noncontrolling interests in consolidated affiliates	3,140	87,120
Debt financing costs	(2,080)	(4,748)
Distributions to preferred shareholders	(18,125)	(84,582)
Distributions to holders of noncontrolling interests in consolidated affiliates	(8)	(1,017)
Other financing activities	(4,310)	(846)
Net cash (used in) provided by financing activities	(43,646)	364,448
Effect of exchange rate changes on cash	(59)	(302)
Net change in cash and cash equivalents	(273)	10,035
Cash and cash equivalents, beginning of period	80,074	72,013

Cash and cash equivalents, end of period	$79,801	$82,048

See accompanying notes to unaudited condensed consolidated financial statements.

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STRATEGIC HOTELS & RESORTS, INC. AND SUBSIDIARIES (SHR)
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS – Continued
(In Thousands)

	Nine Months Ended September 30,	
	2013	2012
Supplemental Schedule of Non-Cash Investing and Financing Activities:		
Gain on mark to market of derivative instruments (see notes 2 and 10)	$(9,108)	$(4,929)
Distributions declared and payable to preferred shareholders (see note 9)	$—	$6,042
(Decrease) increase in capital expenditures recorded as liabilities	$(2,393)	$3,236
Cash Paid For (Receipts Of):		
Interest, net of interest capitalized	$64,548	$52,733
Income taxes, net of refunds	$(497)	$(248)

See accompanying notes to unaudited condensed consolidated financial statements.

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STRATEGIC HOTELS & RESORTS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

Strategic Hotels & Resorts, Inc. (SHR and, together with its subsidiaries, the Company) was incorporated in January 2004 to acquire and asset-manage upper upscale and luxury hotels that are subject to long-term management contracts. As of September 30, 2013, the Company's portfolio included 18 full-service hotel interests located in urban and resort markets in the United States; Punta Mita, Nayarit, Mexico; Hamburg, Germany; and London, England. The Company operates in one reportable business segment, hotel ownership.

SHR operates as a self-administered and self-managed real estate investment trust (REIT), which means that it is managed by its board of directors and executive officers. A REIT is a legal entity that holds real estate interests and, through payments of dividends to stockholders, is permitted to reduce or avoid federal income taxes at the corporate level. For SHR to continue to qualify as a REIT, it cannot operate hotels; instead it employs internationally known hotel management companies to operate its hotels under management contracts. SHR conducts its operations through its direct and indirect subsidiaries, including its operating partnership, Strategic Hotel Funding, L.L.C. (SH Funding), which currently holds substantially all of the Company's assets. SHR is the sole managing member of SH Funding and holds approximately 99% of its membership units as of September 30, 2013. SHR manages all business aspects of SH Funding, including the sale and purchase of hotels, the investment in these hotels and the financing of SH Funding and its assets.

As of September 30, 2013, SH Funding owned interests in or leased the following 18 hotels:

1. Fairmont Chicago	10. InterContinental Miami
2. Fairmont Scottsdale Princess (a)	11. JW Marriott Essex House Hotel (d)
3. Four Seasons Jackson Hole	12. Loews Santa Monica Beach Hotel
4. Four Seasons Punta Mita Resort	13. Marriott Hamburg (e)
5. Four Seasons Silicon Valley	14. Marriott Lincolnshire Resort (f)
6. Four Seasons Washington, D.C.	15. Marriott London Grosvenor Square (f)
7. Hotel del Coronado (b)	16. Ritz-Carlton Half Moon Bay
8. Hyatt Regency La Jolla (c)	17. Ritz-Carlton Laguna Niguel
9. InterContinental Chicago	18. Westin St. Francis

(a) This property is owned by an unconsolidated affiliate in which the Company holds an interest (see note 6). One land parcel at this property is subject to a ground lease arrangement.

(b) This property is owned by an unconsolidated affiliate in which the Company indirectly holds an interest (see note 6).

(c) This property is owned by a consolidated affiliate in which the Company holds an interest (see note 2).

(d) This property is owned by a consolidated affiliate in which the Company holds an interest (see note 5).

(e) The Company has a leasehold interest in this property.

(f) These properties are subject to ground lease arrangements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation:

The accompanying unaudited condensed consolidated financial statements and related notes have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and in conformity with the rules and regulations of the SEC applicable to interim financial information. As such, certain information and footnote disclosures normally included in complete annual financial statements prepared in accordance with GAAP have been omitted in accordance with the rules and regulations of the SEC. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting of normal recurring accruals, necessary to present fairly the financial position of the Company and its results of operations and cash flows for the interim periods presented. The Company believes the disclosures made are adequate to prevent the information presented from being misleading. However, the unaudited condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements included in SHR's annual report on Form 10-K for the year ended December 31, 2012.

STRATEGIC HOTELS & RESORTS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Basis of Consolidation:
The accompanying unaudited condensed consolidated financial statements include the accounts of SHR, its subsidiaries and other entities in which the Company has a controlling interest. If SH Funding determines that it is the holder of a variable interest in a variable interest entity (VIE), and it is the primary beneficiary, then SH Funding will consolidate the entity. At September 30, 2013, SH Funding consolidated one VIE, the entity that owns the JW Marriott Essex House Hotel (see note 5). For entities that are not considered VIEs, SH Funding consolidates those entities it controls. At September 30, 2013, SH Funding owned a 53.5% controlling interest in the entity that owns the Hyatt Regency La Jolla hotel, which is consolidated in the accompanying condensed consolidated financial statements. It accounts for those entities over which it has a significant influence but does not control using the equity method of accounting. At September 30, 2013, SH Funding owned interests in the Fairmont Scottsdale Princess hotel (Fairmont Scottsdale Princess Venture), the Hotel del Coronado (Hotel del Coronado Venture), the Four Seasons Residence Club Punta Mita (RCPM) and the Lot H5 Venture (see note 6), which are unconsolidated affiliates in the accompanying condensed consolidated financial statements that are accounted for using the equity method of accounting.
All significant intercompany transactions and balances have been eliminated in consolidation.
Use of Estimates:
The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.
Restricted Cash and Cash Equivalents:
At September 30, 2013 and December 31, 2012, restricted cash and cash equivalents included $39,035,000 and $33,832,000, respectively, that will be used for property and equipment replacement in accordance with hotel management or lease agreements. At September 30, 2013 and December 31, 2012, restricted cash and cash equivalents also included reserves of $36,148,000 and $24,747,000, respectively, required by loan and other agreements.
Income Taxes:
SHR has elected to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the Tax Code). As a REIT, SHR generally will not be subject to U.S. federal income tax if it distributes 100% of its annual taxable income to its shareholders and complies with certain other requirements. As a REIT, SHR is subject to a number of organizational and operational requirements. If it fails to qualify as a REIT in any taxable year, SHR will be subject to U.S. federal income tax (including any applicable alternative minimum tax) on its taxable income at regular corporate tax rates. Even if it qualifies for taxation as a REIT, it may be subject to foreign, state and local income taxes and to U.S. federal income tax and excise tax on its undistributed income. In addition, taxable income from SHR’s taxable REIT subsidiaries is subject to federal, foreign, state and local income taxes. Also, the foreign countries where the Company has operations do not recognize REITs under their respective tax laws. Accordingly, the Company is subject to tax in those jurisdictions.
Deferred tax assets and liabilities are established for net operating loss carryforwards and temporary differences between the financial reporting basis and the tax basis of assets and liabilities at the enacted tax rates expected to be in effect when the net operating loss carryforwards are utilized and when the temporary differences reverse. The Company evaluates uncertain tax positions in accordance with applicable accounting guidance. A valuation allowance for deferred tax assets is provided if the Company believes all or some portion of the deferred tax asset may not be realized. Any increase or decrease in the valuation allowance that results from a change in circumstances that causes a change in the estimated realizability of the related deferred tax asset is included in earnings.

STRATEGIC HOTELS & RESORTS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the three and nine months ended September 30, 2013 and 2012, income tax benefit (expense) is summarized as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Current tax (expense):				
Europe	$(88)	$(308)	$(335)	$(538)
Mexico	(944)	(150)	(1,293)	(150)
United States	(193)	—	(447)	(433)
	(1,225)	(458)	(2,075)	(1,121)
Deferred tax benefit:				
Mexico	1,447	1,058	577	478
United States	208	—	377	428
	1,655	1,058	954	906
Total income tax benefit (expense)	$430	$600	$(1,121)	$(215)

Per Share Data:

Basic income (loss) per share is computed by dividing the net income (loss) attributable to SHR common shareholders by the weighted average shares of common stock outstanding during each period. Diluted income (loss) per share is computed by dividing the net income (loss) attributable to SHR common shareholders as adjusted for the impact of dilutive securities, if any, by the weighted average shares of common stock outstanding plus potentially dilutive securities. Dilutive securities may include restricted stock units (RSUs), options to purchase shares of SHR common stock (Options), stock units payable in SHR's common stock under the Company's Deferral Program (as defined in note 11) (Deferral Program Stock Units) and noncontrolling interests that have an option to exchange their interests to shares of SHR common stock. No effect is shown for securities that are anti-dilutive. The following table sets forth the components of the calculation of net income (loss) attributable to SHR common shareholders for the three and nine months ended September 30, 2013 and 2012 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Numerator - Basic:				
Income (loss) from continuing operations attributable to SHR	$9,802	$(2,515)	$1,711	$(24,411)
Preferred shareholder dividends	(6,042)	(6,042)	(18,125)	(18,125)
Income (loss) from continuing operations attributable to SHR common shareholders	$3,760	$(8,557)	$(16,414)	$(42,536)
Numerator - Diluted:				
Income (loss) from continuing operations attributable to SHR common shareholders	$3,760	$(8,557)	$(16,414)	$(42,536)
Adjustment for noncontrolling interests in consolidated affiliates (see note 5)	(2,910)	(1,380)	(6,856)	—
Income (loss) from continuing operations attributable to SHR common shareholders - diluted	$850	$(9,937)	$(23,270)	$(42,536)
Denominator:				
Weighted average shares of common stock – basic (a)	206,767	206,523	206,163	198,872
Effect of dilutive securities:				
Noncontrolling interests in consolidated affiliates (see note 5)	11,390	11,659	11,390	—
RSUs	2,101	—	—	—

Weighted average shares of common stock – diluted	220,258	218,182	217,553	198,872

STRATEGIC HOTELS & RESORTS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(a) Includes RSUs and Deferral Program Stock Units of 1,240 and 2,214 at September 30, 2013 and 2012, respectively, that have vested but have not yet been issued to shares of common stock.

Securities that could potentially dilute basic income (loss) per share in the future that are not included in the computation of diluted income (loss) per share because they are anti-dilutive as of September 30, 2013 and 2012 are as follows (in thousands):

	Computation For Three Months Ended September 30,		Computation For Nine Months Ended September 30,	
	2013	2012	2013	2012
Noncontrolling interests in SHR's operating partnership	853	853	853	853
Noncontrolling interests in consolidated affiliates	—	—	—	11,659
Options, RSUs and Deferral Program Stock Units	—	2,584	2,479	2,584

Accumulated Other Comprehensive Loss:

The Company’s accumulated other comprehensive loss (OCL) results from mark to market of certain derivative financial instruments and unrealized gains or losses on foreign currency translation adjustments (CTA). The following tables provide the changes in accumulated OCL for the three month periods ended September 30, 2013 and 2012 (in thousands):

	Derivative and Other Activity	CTA	Accumulated OCL
Balance at June 30, 2013	$(28,050)	$(19,630)	$ (47,680)
Other comprehensive loss before reclassifications	(684)	(901)	(1,585)
Amounts reclassified from accumulated OCL	4,369	—	4,369
Net other comprehensive income (loss)	3,685	(901)	2,784
Balance at September 30, 2013	$(24,365)	$(20,531)	$ (44,896)

	Derivative and Other Activity	CTA	Accumulated OCL
Balance at June 30, 2012	$(41,967)	$(20,886)	$ (62,853)
Other comprehensive (loss) income before reclassifications	(1,002)	378	(624)
Amounts reclassified from accumulated OCL	5,216	—	5,216
Net other comprehensive income	4,214	378	4,592
Balance at September 30, 2012	$(37,753)	$(20,508)	$ (58,261)

The following tables provide the changes in accumulated OCL for the nine month periods ended September 30, 2013 and 2012 (in thousands):

	Derivative and Other Activity	CTA	Accumulated OCL
Balance at January 1, 2013	$(38,454)	$(20,417)	$ (58,871)
Other comprehensive loss before reclassifications	(531)	(114)	(645)
Amounts reclassified from accumulated OCL	14,620	—	14,620
Net other comprehensive income (loss)	14,089	(114)	13,975
Balance at September 30, 2013	$(24,365)	$(20,531)	$ (44,896)

STRATEGIC HOTELS & RESORTS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Derivative and Other Activity	CTA	Accumulated OCL
Balance at January 1, 2012	$(49,510)	$(21,142)	$ (70,652)
Other comprehensive (loss) income before reclassifications	(4,198)	634	(3,564)
Amounts reclassified from accumulated OCL	15,955	—	15,955
Net other comprehensive income	11,757	634	12,391
Balance at Balance at September 30, 2012	$(37,753)	$(20,508)	$ (58,261)

The reclassifications out of accumulated OCL for the three and nine months ended September 30, 2013 and 2012 are as follows (in thousands):

	Amount Reclassified from Accumulated OCL				
	Three Months Ended September 30,		Nine Months Ended September 30,		
Details about Accumulated OCL Components	2013	2012	2013	2012	Statement of Operations Line Item
Activity related to cash flow hedges	$4,369	$5,216	$14,620	$15,955	Interest expense

New Accounting Guidance:

In December 2011, the Financial Accounting Standards Board (FASB) clarified that when a parent (reporting entity) ceases to have a controlling financial interest in a subsidiary that is in substance real estate as a result of a default on the subsidiary's nonrecourse debt, the reporting entity should apply the guidance on sales of real estate. The provisions are effective for public companies for fiscal years and interim periods within those years, beginning on or after June 15, 2012. The Company adopted the new guidance on January 1, 2013 and the guidance did not have a material impact on the Company's condensed consolidated financial statements.

In February 2013, the FASB issued new guidance to require an entity to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income if the amount is reclassified to net income in its entirety in the same reporting period. For other amounts not required to be reclassified in their entirety to net income in the same reporting period, a cross-reference to other disclosures that provide additional detail about the reclassification amounts is required. The provisions are effective for reporting periods beginning after December 15, 2012. The Company adopted this new guidance on January 1, 2013 and complied with the expanded disclosure requirements, as applicable.

3. INVESTMENT IN HOTEL PROPERTIES, NET

The following summarizes the Company's investment in hotel properties as of September 30, 2013 and December 31, 2012, excluding the leasehold interest in the Marriott Hamburg and unconsolidated affiliates (in thousands):

	September 30, 2013	December 31, 2012
Land	$565,000	$565,000
Land held for development	51,900	78,000
Leasehold interest	11,633	11,633
Buildings	1,409,142	1,409,406
Building and leasehold improvements	103,258	91,523
Site improvements	29,207	29,207
Furniture, fixtures and equipment	505,941	492,240
Improvements in progress	17,969	20,678
Total investment in hotel properties	2,694,050	2,697,687
Less accumulated depreciation	(778,838)	(727,127)
Total investment in hotel properties, net	$1,915,212	$1,970,560
Consolidated hotel properties	15	15

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STRATEGIC HOTELS & RESORTS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Acquisition of the JW Marriott Essex House Hotel

On September 14, 2012, the Company closed on the acquisition of the JW Marriott Essex House Hotel located in New York, New York for a purchase price, net of working capital prorations, of approximately $350,333,000. In connection with the closing of the acquisition, the Company formed a joint venture arrangement, or the Essex House Hotel Venture, to fund the equity portion of the purchase price (see note 5). The Essex House Hotel Venture incurred acquisition costs of $2,726,000 for the three and nine months ended September 30, 2012, that were included in corporate expenses on the condensed consolidated statements of operations. The JW Marriott Essex House Hotel was accounted for as a business combination, and the assets and liabilities and results of operations of the hotel have been consolidated in the condensed consolidated financial statements since the date of purchase. The allocation of the purchase price for the acquisition is as follows (in thousands):

Land	$230,951
Buildings	88,470
Furniture, fixtures and equipment	21,927
Other assets	13,067
Intangible assets	390
Net working capital	(4,472)
Net purchase price	$350,333

The impact to revenues and net income (loss) attributable to SHR common shareholders from the acquisition of the JW Marriott Essex House Hotel for the three and nine months ended September 30, 2013 and 2012 is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Increase in revenues	$20,380	$3,838	$59,686	$3,838
Increase in net income (loss) attributable to SHR common shareholders	$(3,028)	$(1,436)	$(7,136)	$(1,436)

On an unaudited pro forma basis, revenues, net income (loss) attributable to SHR common shareholders and basic and diluted income (loss) attributable to SHR common shareholders per share for the three and nine months ended September 30, 2012 are as follows as if this acquisition had occurred on January 1, 2012 (in thousands):

	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2012
Total revenue	$220,283	$638,046
Net income (loss)	$(6,910)	$(40,842)
Preferred shareholder dividends	$(6,042)	$(18,125)
Net income (loss) attributable to SHR common shareholders	$(10,144)	$(50,598)
Net income (loss) attributable to SHR common shareholders per share:		
Basic	$(0.05)	$(0.25)
Diluted	$(0.06)	$(0.28)

STRATEGIC HOTELS & RESORTS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. IMPAIRMENT LOSSES AND OTHER CHARGES

Long-Lived Asset Impairment Loss

In January 2012, the Company acquired, at a discount to par value, a note receivable secured by a property adjacent to the Fairmont Chicago hotel for $10,507,000. In the third quarter of 2013, the Company completed foreclosure proceedings and obtained title to the asset. Upon taking title of the asset, the Company assumed certain liabilities that increased the total consideration exchanged for the asset, which increased the Company's basis in the asset. After taking title to the asset, the Company elected to sell the asset. Based on the change in the anticipated holding period for this asset, the Company performed an impairment test of the long-lived assets during the third quarter of 2013. The Company determined that the asset's carrying value exceeded the asset's fair value of $10,500,000, with the fair value determined based on the transaction price offered by a third party buyer (Level 2 input), which the Company considered to be an offer in an orderly transaction in the principal market. As a result of this test, the Company reduced the carrying value of the asset to its fair value and recorded an impairment charge of $728,000 in the condensed consolidated statements of operations for the three and nine months ended September 30, 2013. In October 2013, the Company sold the property to an unaffiliated third party (see note 17).

5. VARIABLE INTEREST ENTITY

On September 14, 2012, the Company formed a joint venture arrangement (Essex House Hotel Venture) with affiliates of KSL Capital Partners, LLC (KSL) to acquire, own, manage, and operate the JW Marriott Essex House Hotel. The Company contributed cash of $89,147,000 to acquire a 51% equity interest in the Essex House Hotel Venture, and KSL contributed cash of $85,651,000 to acquire a 49% equity interest. Pursuant to the terms of the joint venture agreements establishing the Essex House Hotel Venture, at any time prior to the third anniversary of the formation of the Essex House Hotel Venture, KSL shall have the right to sell its equity interest in the Essex House Hotel Venture to the Company in exchange for shares of SHR's common stock, as set forth in the joint venture agreements, at a purchase price equal to KSL's net investment plus 8.0% compounded annually (the Put Option). For purposes of paying the purchase price, SHR's common stock shall be valued at the greater of (i) $7.50 per share and (ii) the 20-day volume-weighted average price per share of SHR's common stock as of the date KSL exercises the Put Option. The Essex House Hotel Venture is jointly controlled; however, it is considered a variable interest entity because the Company determined that it is the only holder of equity at risk due to the Put Option. The Company also determined that it is the primary beneficiary of the Essex House Hotel Venture due to the Put Option, which impacts the Company's power to direct the activities that most significantly impact the economic performance of the entity, as well as its obligation to absorb the losses and its right to receive benefits from the entity that could potentially be significant to the entity. As such, the transactions and accounts of the Essex House Hotel Venture are included in the accompanying condensed consolidated financial statements.

Other than in connection with a customary environmental indemnity and non-recourse carve-out guaranty in favor of the lender, the liabilities of the Essex House Hotel Venture are solely the obligations of the Essex House Hotel Venture and are not guaranteed by the Company. The debt is secured by the JW Marriott Essex House Hotel, and the creditors of the Essex House Hotel Venture do not have general recourse to the Company. The use of certain assets of the Essex House Hotel Venture is restricted because they are collateral for the Essex House Hotel Venture's debt, and the Company does not have the ability to leverage the assets.

The Company and KSL are subject to the terms of the joint venture agreements, which include provisions for additional contributions. For the nine months ended September 30, 2013, the Company and KSL provided additional contributions of $3,268,000 and $3,140,000, respectively, to the Essex House Hotel Venture for property improvements.

STRATEGIC HOTELS & RESORTS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. INVESTMENT IN UNCONSOLIDATED AFFILIATES

Investment in unconsolidated affiliates as of September 30, 2013 and December 31, 2012 includes the following (in thousands):

	September 30, 2013	December 31, 2012
Fairmont Scottsdale Princess Venture	$26,670	$25,225
Hotel del Coronado Venture	56,865	83,320
RCPM	3,972	3,943
Lot H5 Venture	19,407	—
Total investment in unconsolidated affiliates	$106,914	$112,488

Fairmont Scottsdale Princess Venture

The Company has 50% ownership interests in the entities that own the Fairmont Scottsdale Princess hotel, FMT Scottsdale Holdings, L.L.C. and Walton/SHR FPH Holdings, L.L.C. (together, the Fairmont Scottsdale Princess Venture). The Company jointly controls the venture with an unaffiliated third party, an affiliate of Walton Street Capital, L.L.C. (Walton Street) and serves as the managing member. The Company acts as asset manager and is entitled to earn a quarterly base management fee equal to 1.0% of total revenues during years one and two following the formation of the Fairmont Scottsdale Princess Venture, 1.25% during years three and four, and 1.5% thereafter, as well as certain project management fees. The Company recognized fees of $99,000 and $148,000 for the three months ended September 30, 2013 and 2012, respectively, and $451,000 and $534,000 for the nine months ended September 30, 2013 and 2012, respectively, which are included in other (expenses) income, net on the condensed consolidated statements of operations. In connection with the Fairmont Scottsdale Princess Venture, the Company is entitled to certain promote payments after Walton Street achieves a specified return.

The Fairmont Scottsdale Princess Venture has a $133,000,000 mortgage that matures December 31, 2013 with an option for an extension through April 9, 2015, subject to certain conditions. The Fairmont Scottsdale Princess Venture expects to meet these conditions and intends to extend the loan. Interest is payable monthly at the London Interbank Offered Rate (LIBOR) plus 0.36%.

Hotel del Coronado Venture

The Company has a 36.4% ownership interest in the entity that owns the Hotel del Coronado, BSK Del Partners, L.P. (Hotel del Coronado Venture). An affiliate of Blackstone Real Estate Advisors VI L.P. (Blackstone), an unaffiliated third party, has a 63.6% ownership interest in the Hotel del Coronado Venture and is the general partner. The Company acts as asset manager and is entitled to earn a quarterly asset management fee equal to 1.0% of gross revenue, certain development fees, and if applicable, an incentive fee equal to one-third of the incentive fee paid to the hotel operator under the hotel management agreement. Through its ownership interest in SHR del Partners, L.P., the Company can also earn its share of a profit-based incentive fee of 20.0% of all distributions of the Hotel del Coronado Venture that exceed both a 20.0% internal rate of return and two times return on invested equity. The Company recognized fees of $283,000 and $280,000 for the three months ended September 30, 2013 and 2012, respectively, and $701,000 and $694,000 for the nine months ended September 30, 2013 and 2012, respectively, which are included in other (expenses) income, net on the condensed consolidated statements of operations.

The Hotel del Coronado Venture had $425,000,000 of mortgage and mezzanine loans that had an initial maturity of March 9, 2013 with three, one-year extension options, subject to certain conditions. Interest was payable at a weighted average rate of LIBOR plus 4.80%, subject to a 1.00% LIBOR floor. Additionally, the Hotel del Coronado Venture purchased a two-year, 2.00% LIBOR cap, which was required by the loan.

In March 2013, the Hotel del Coronado Venture entered into new $475,000,000 mortgage and mezzanine loans that replaced the previous $425,000,000 mortgage and mezzanine loans. The $475,000,000 loans have an initial two-year term with three, one-year extension options, subject to certain conditions. Interest is payable monthly at an annual blended interest rate of LIBOR plus 3.65%. Additionally, the Hotel del Coronado Venture purchased a two-year, 3.0% LIBOR cap, which was required by the loans.

During the nine months ended September 30, 2013, the Company received distributions of $22,080,000 from the Hotel del Coronado Venture, which includes the distribution of excess proceeds from the newly refinanced mortgage and mezzanine loans.

STRATEGIC HOTELS & RESORTS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

RCPM

The Company owns a 31% interest in, and acts as asset manager for, an unconsolidated affiliate, formed with two unaffiliated parties, that is developing the RCPM, a luxury vacation home product that is being sold in fractional and whole ownership interests on the property adjacent to the Company’s Four Seasons Punta Mita Resort in Mexico. The Company earns asset management fees and recognizes income on the percentage not owned by the Company. These fees amounted to $0 and $27,000 for the three months ended September 30, 2013 and 2012, respectively, and $50,000 and $98,000 for the nine months ended September 30, 2013 and 2012, respectively, and are included in other (expenses) income, net in the condensed consolidated statements of operations.

Lot H5 Venture

In October 2007, the Company acquired an undeveloped, oceanfront land parcel in Punta Mita, Nayarit, Mexico, known as the Lot H5 land parcel. The Company paid cash and executed two $17,500,000 non-interest bearing promissory notes payable to the seller, Cantiles de Mita, S.A. de C.V. (Cantiles), an unaffiliated third party. On September 30, 2008, the Company paid the first of the $17,500,000 non-interest bearing promissory notes. In August 2009, the Company entered into an agreement with Cantiles, whereby the Company was released from its obligation under the second $17,500,000 note in exchange for the Company granting Cantiles a right to an equity interest in the Lot H5 land parcel (Original Lot H5 Venture Agreement). The exchange was subject to Cantiles obtaining certain permits and licenses to develop the Lot H5 land parcel and the execution of an amended venture agreement. Until the conditions of the Original Lot H5 Venture Agreement were satisfied, the Company held 100% legal title to the property and accounted for the Lot H5 land parcel as a consolidated property, which was recorded in investment in hotel properties, net on the Company's condensed consolidated balance sheet. The Company's obligation to grant Cantiles an equity interest in the Lot H5 land parcel was recorded as a liability in accounts payable and accrued expenses on the Company's condensed consolidated balance sheet.

On June 14, 2013, subsequent to Cantiles obtaining the required permits and licenses to develop the Lot H5 land parcel, the Company and Cantiles entered into an amended and restated venture agreement, forming the Lot H5 Venture. The Company has a preferred position in the Lot H5 Venture that entitles it to receive the first $12,000,000 of distributions generated from the Lot H5 land parcel with any excess distributions split equally between the Company and Cantiles. The Company jointly controls the Lot H5 Venture with Cantiles and accounts for its interest in the Lot H5 Venture as an equity method investment. The Company deconsolidated the land and recorded its share of the fair value of the land, net of the obligation to provide Cantiles with an equity interest in the Lot H5 land parcel, as an investment in unconsolidated affiliates on the condensed consolidated balance sheet. The Company did not recognize a gain or loss because the carrying value of the land was recorded at its fair value. The carrying value of the land was adjusted to fair value in the fourth quarter of 2012 based on the results of an impairment test performed during that period.

Condensed Combined Financial Information of Investment in Unconsolidated Affiliates:

The following is summarized financial information for the Company’s unconsolidated affiliates as of September 30, 2013 and December 31, 2012 and for the three and nine months ended September 30, 2013 and 2012 (in thousands):

	September 30, 2013	December 31, 2012
Assets		
Investment in hotel properties, net	$724,921	$706,359
Intangible assets, net	42,388	51,862
Cash and cash equivalents	23,667	21,853
Restricted cash and cash equivalents	30,075	24,042
Prepaid expenses and other assets	28,759	24,350
Total assets	$849,810	$828,466
Liabilities and Partners’ Equity		
Mortgage and other debt payable	$608,000	$558,000
Other liabilities	52,411	53,031

Partners' equity	189,399	217,435
Total liabilities and partners' equity	$849,810	$828,466

STRATEGIC HOTELS & RESORTS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues				
Hotel operating revenue	$61,619	$55,585	$184,866	$167,068
Residential sales	—	2,280	4,235	9,910
Total revenues	61,619	57,865	189,101	176,978
Expenses				
Hotel operating expenses	43,253	43,187	131,607	123,802
Residential costs of sales	—	1,469	2,952	6,342
Depreciation and amortization	8,280	8,610	25,541	25,726
Other operating expenses	1,416	1,178	3,552	4,114
Total operating expenses	52,949	54,444	163,652	159,984
Operating income	8,670	3,421	25,449	16,994
Interest expense, net	(5,779)	(7,992)	(18,888)	(23,980)
Other expenses, net	(278)	(101)	(400)	(39)
Net income (loss)	$2,613	$(4,672)	$6,161	$(7,025)
Equity in earnings (losses) in unconsolidated affiliates				
Net income (loss)	$2,613	$(4,672)	$6,161	$(7,025)
Partners' share of income (loss) of unconsolidated affiliates	(2,198)	2,175	(3,544)	3,886
Adjustments for basis differences, taxes and intercompany eliminations	36	240	635	1,085
Total equity in earnings (losses) of unconsolidated affiliates	$451	$(2,257)	$3,252	$(2,054)

To the extent that the Company's cost basis is different than the basis reflected at the unconsolidated affiliate level, the basis difference, excluding amounts attributable to land and goodwill, is amortized over the life of the related asset and included in the Company's share of equity in earnings (losses) of the unconsolidated affiliates.

7. OPERATING LEASE AGREEMENTS

In February 2013, the Company amended the ground lease agreement at the Marriott Lincolnshire Resort. The amendment extended the term of the lease through December 31, 2112 and changed the annual rent payments to a fixed amount, subject to indexation.

In June 2004, the Company recorded a sale of the Marriott Hamburg, and the Company's leaseback of the hotel was reflected as an operating lease. A deferred gain was recorded in conjunction with the sale and is being recognized as a reduction of lease expense over the life of the lease. The Company recognized $52,000 and $49,000 of the deferred gain for the three months ended September 30, 2013 and 2012, respectively, and for the nine months ended September 30, 2013 and 2012, recognized $154,000 and $150,000, respectively. As of September 30, 2013 and December 31, 2012, the deferred gain on the sale of the Marriott Hamburg hotel recorded in accounts payable and accrued expenses on the accompanying condensed consolidated balance sheets amounted to $3,401,000 and $3,497,000, respectively. On a monthly basis, the Company makes minimum rent payments aggregating to an annual total of €3,784,000 (adjusting by an index formula) ($5,118,000 based on the foreign exchange rate as of September 30, 2013) and pays additional rent based upon the performance of the hotel, which are recorded as lease expense in the Company's condensed consolidated statements of operations. A euro-denominated security deposit at September 30, 2013 and December 31, 2012 was $2,570,000 and $2,507,000, respectively, and is included in prepaid expenses and other assets on the Company's condensed consolidated balance sheets. The Company subleases its interest in the Marriott Hamburg hotel to a third party. The Company has reflected the sublease arrangement as an operating lease and records lease revenue.

Lease payments related to office space are included in corporate expenses on the condensed consolidated statements of operations and lease payments related to hotel ground leases are included in other hotel expenses on the condensed consolidated statements of operations.

STRATEGIC HOTELS & RESORTS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. INDEBTEDNESS

Mortgages and Other Debt Payable:

Certain subsidiaries of SHR are the borrowers under various financing arrangements. These subsidiaries are separate legal entities and their respective assets and credit are not available to satisfy the debt of SHR or any of its other subsidiaries.

Mortgages and other debt payable at September 30, 2013 and December 31, 2012 consisted of the following (in thousands):

Debt	Spread (a)	Maturity	Balance Outstanding at September 30, 2013	December 31, 2012
Four Seasons Washington, D.C.(b)	3.15%	July 2014	130,000	130,000
Marriott London Grosvenor Square(c)	2.60%	October 2014	113,367	115,468
Loews Santa Monica Beach Hotel(b)	3.85%	July 2015	109,500	110,000
JW Marriott Essex House Hotel(b)	4.00%	September 2015	186,278	190,000
InterContinental Miami(b)	3.50%	July 2016	85,000	85,000
Fairmont Chicago(d)	Fixed	June 2017	93,124	95,167
Westin St. Francis(d)	Fixed	June 2017	209,588	214,186
Hyatt Regency La Jolla(e)	4.00%/Fixed	December 2017	89,367	90,000
InterContinental Chicago	Fixed	August 2021	144,867	145,000
Total mortgages payable(f)			1,161,091	1,174,821
Other debt(g)	Fixed	January 2014	1,476	1,476
Total mortgages and other debt payable			$1,162,567	$1,176,297

(a) Interest on mortgage loans is paid monthly at the applicable spread over LIBOR (0.18% at September 30, 2013) for all variable-rate mortgage loans except for those secured by the Marriott London Grosvenor Square hotel (£70,040,000 and £71,070,000 at September 30, 2013 and December 31, 2012, respectively), the JW Marriott Essex House Hotel and the Hyatt Regency La Jolla hotel (see (e) below). Interest on the Marriott London Grosvenor Square loan is paid quarterly at the applicable spread over three-month GBP LIBOR (0.52% at September 30, 2013) and interest on the JW Marriott Essex House Hotel is subject to a 0.75% LIBOR floor. Interest on the Fairmont Chicago and Westin St. Francis loans is paid monthly at an annual fixed rate of 6.09%, and interest on the InterContinental Chicago loan is paid monthly at an annual fixed rate of 5.61%.

(b) The mortgage loan secured by the Four Seasons Washington, D.C. hotel has two, one-year extension options; the mortgage loan secured by the InterContinental Miami hotel has two, one-year extension options; the mortgage loan secured by the Loews Santa Monica Beach Hotel has three, one-year extension options; and the mortgage loan secured by the JW Marriott Essex House Hotel has two, one-year extension options. All of the extension options are subject to certain conditions. The maturity dates in the table exclude extension options.

(c) On August 7, 2013, the Company entered into an amendment to the mortgage loan. The amendment extended the maturity of the loan to October 2014 and waived the July 2013 and subsequent principal payments through the extended term. Pursuant to the amendment, the spread over GBP LIBOR increases in steps during the extension period from GBP LIBOR plus 2.10% in August 2013 to GBP LIBOR plus 4.25% in April 2014. The spread in the table is the spread as of September 30, 2013.

(d) On September 9, 2013, the Company amended the mortgage agreements secured by the Fairmont Chicago and Westin St. Francis hotels. The amendment eliminates future principal amortization payments subject to meeting certain financial and other requirements.

(e) Interest on $72,000,000 of the total principal amount is paid monthly at LIBOR plus 4.00%, subject to a 0.50% LIBOR floor, and interest on $17,367,000 of the total principal amount is paid monthly at an annual fixed rate of 10.00%.

(f) All of these loan agreements require maintenance of financial covenants, all of which the Company was in compliance with at September 30, 2013.

STRATEGIC HOTELS & RESORTS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(g) A consolidated affiliate of the Company that owns a condominium-hotel development adjacent to the Hotel del Coronado (North Beach Venture) assumed the mortgage loan on a hotel-condominium unit, which accrues interest at an annual fixed rate of 5.00% and is secured by the hotel-condominium unit. The hotel-condominium unit, with a carrying value of $1,594,000, is included in prepaid expenses and other assets on the condensed consolidated balance sheets as of September 30, 2013 and December 31, 2012.

Bank Credit Facility:

On June 30, 2011, SH Funding entered into a $300,000,000 secured bank credit facility agreement. The agreement contains an accordion feature allowing for additional borrowing capacity up to $400,000,000, subject to the satisfaction of customary conditions set forth in the agreement. The agreement has a maturity date of June 30, 2014, with the right to extend the maturity date for an additional one-year period with an extension fee, subject to certain conditions. Under the agreement, SH Funding has a letter of credit sub-facility of $75,000,000, which is secured by the bank credit facility. Letters of credit reduce the borrowing capacity under the bank credit facility.

The interest rate at September 30, 2013 was 3.18% and the weighted average interest rate for the nine months ended September 30, 2013 was 3.20%. At September 30, 2013, maximum availability under the bank credit facility was $300,000,000 and there was $137,000,000 of borrowings outstanding under the bank credit facility and outstanding letters of credit of $15,569,000 (see note 13). The agreement also requires maintenance of financial covenants, all of which SH Funding and SHR were in compliance with at September 30, 2013.

Debt Maturity:

The following table summarizes the aggregate maturities (assuming all extension options exercised) as of September 30, 2013 for all mortgages and other debt payable and the Company's bank credit facility (in thousands):

Years ending December 31,	Amounts
2013 (remainder)	$948
2014	119,098
2015	143,029
2016	139,783
2017	577,550
Thereafter	319,159
Total	$1,299,567

Interest Expense:

Interest expense includes a reduction related to capitalized interest of $280,000 and $452,000 for the three months ended September 30, 2013 and 2012, respectively, and $720,000 and $1,131,000 for the nine months ended September 30, 2013 and 2012, respectively. Total interest expense includes amortization of deferred financing costs of $1,304,000 and $954,000 for the three months ended September 30, 2013 and 2012, respectively, and $3,832,000 and $2,761,000 for the nine months ended September 30, 2013 and 2012, respectively.

STRATEGIC HOTELS & RESORTS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. EQUITY AND DISTRIBUTION ACTIVITY
Common Stock:
The following table presents the changes in the issued and outstanding shares of SHR common stock since December 31, 2012 (excluding 853,027 and 853,461 units of SH Funding (OP Units) outstanding at September 30, 2013 and December 31, 2012, respectively, which are redeemable for shares of SHR common stock on a one-for-one basis, or the cash equivalent thereof, subject to certain restrictions and at the option of SHR) (in thousands):

Outstanding at December 31, 2012	204,309
RSUs redeemed for shares of SHR common stock	1,217
OP Units redeemed for shares of SHR common stock	1
Outstanding at September 30, 2013	205,527

As of September 30, 2013, no shares of SHR common stock have been repurchased under the $50,000,000 share repurchase program.
Stockholder Rights Plan
On May 30, 2013, the Company entered into an amendment to terminate its stockholder rights plan effective as of such date.
Distributions to Shareholders and Unitholders
On November 4, 2008, SHR’s board of directors elected to suspend the quarterly dividend to holders of shares of SHR common stock.
Preferred Stock:
SHR’s charter provides that it may issue up to 150,000,000 shares of preferred stock, $0.01 par value per share. SHR’s 8.50% Series A Cumulative Redeemable Preferred Stock (Series A Preferred Stock), 8.25% Series B Cumulative Redeemable Preferred Stock (Series B Preferred Stock), and 8.25% Series C Cumulative Redeemable Preferred Stock (Series C Preferred Stock) have perpetual lives, and SHR may redeem them at $25.00 per share plus accrued distributions.
Distributions
Distributions are declared quarterly to holders of shares of Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock. Dividends on the preferred stock are cumulative. SHR's board of directors declared quarterly distributions of $0.53125 per share of Series A Preferred Stock, $0.51563 per share of Series B Preferred Stock and $0.51563 per share of Series C Preferred Stock for the third quarter of 2013. The distributions were paid on September 30, 2013 to holders of record as of the close of business on September 13, 2013.

STRATEGIC HOTELS & RESORTS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Noncontrolling Interests:
The following tables reflect the reconciliation of the beginning and ending balances of the equity attributable to SHR and the noncontrolling owners (in thousands):

	SHR Shareholders' Equity	Nonredeemable Noncontrolling Interests	Total Permanent Shareholders' Equity	Total Redeemable Noncontrolling Interests (Temporary Equity)(a)
Balance at December 31, 2012	$707,328	$95,657	$802,985	$5,463
RSUs redeemed for shares of common stock	12	—	12	—
Net income (loss)	1,711	(7,467)	(5,756)	(22)
CTA	(115)	—	(115)	1
Derivatives and other activity	14,033	—	14,033	56
Share-based compensation	(179)	—	(179)	(1)
Declared distributions to preferred shareholders	(18,125)	—	(18,125)	—
Redemption value adjustment	(2,028)	—	(2,028)	2,028
Contributions from holders of noncontrolling interests in consolidated affiliates	—	3,140	3,140	—
Distributions to holders of noncontrolling interests in consolidated affiliates	—	(8)	(8)	—
Elimination of noncontrolling interest (b)	—	(5,300)	(5,300)	—
Other	121	—	121	(121)
Balance at September 30, 2013	$702,758	$86,022	$788,780	$7,404

	SHR Shareholders' Equity	Nonredeemable Noncontrolling Interests	Total Permanent Shareholders' Equity	Total Redeemable Noncontrolling Interests (Temporary Equity)(a)
Balance at December 31, 2011	$654,198	$8,222	$662,420	$4,583
Common stock issued	113,594	—	113,594	468
RSUs redeemed for shares of common stock	2	—	2	—
Net loss	(24,946)	(891)	(25,837)	(126)
CTA	631	—	631	3
Derivatives and other activity	11,706	—	11,706	51
Share-based compensation	4,494	—	4,494	19
Declared distributions to preferred shareholders	(18,125)		(18,125)	—
Preferred stock tender costs	(54)	—	(54)	—
Redemption value adjustment	(331)	—	(331)	331
Contributions from holders of noncontrolling interests in consolidated affiliates	—	87,120	87,120	—
Distributions to holders of noncontrolling interests in consolidated affiliates	1,789	(2,806)	(1,017)	—
Other	200	(65)	135	(200)
Balance at September 30, 2012	$743,158	$91,580	$834,738	$5,129

(a) The historical cost of the redeemable noncontrolling interests is based on the proportional relationship between the carrying value of equity associated with SHR's common shareholders relative to that of the unitholders of SH Funding, as OP Units may be exchanged into shares of SHR common stock on a one-for-one basis. The interests held by the noncontrolling partners are stated at the greater of carrying value or their redemption value.

STRATEGIC HOTELS & RESORTS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(b) Effective January 1, 2013, Blackstone no longer holds an ownership interest in SHR del Partners, L.P., a consolidated subsidiary of the Company. Blackstone's ownership interest was transferred to a separate entity that holds a direct interest in the Hotel del Coronado Venture. The Company owns 100% of SHR del Partners, L.P. and eliminated the noncontrolling interests related to this entity. The Company retained its 36.4% ownership interest in the Hotel del Coronado Venture, and Blackstone retained its 63.6% ownership interest.

As of September 30, 2013 and December 31, 2012, the redeemable noncontrolling interests had a redemption value of approximately $7,404,000 (based on the September 30, 2013 SHR common stock closing price of $8.68) and $5,463,000 (based on the December 31, 2012 SHR common stock closing price of $6.40), respectively. As of September 30, 2012 and December 31, 2011, the redeemable noncontrolling interests had a redemption value of approximately $5,129,000 (based on the September 28, 2012 SHR common stock closing price of $6.01) and $4,583,000 (based on the December 30, 2011 SHR common stock closing price of $5.37), respectively.

10. DERIVATIVES

The Company manages its interest rate risk by varying its exposure to fixed and variable rates while attempting to minimize its interest costs. The Company manages its fixed interest rate and variable interest rate risk through the use of interest rate caps and swaps. The Company enters into interest rate caps and swaps with high credit quality counterparties and diversifies its positions among such counterparties in order to reduce its exposure to credit losses. The caps limit the Company’s exposure on its variable-rate debt that would result from an increase in interest rates. The Company’s lenders, as stipulated in the respective loan agreements, generally require such caps. Upon extinguishment of debt, income effects of cash flow hedges are reclassified from accumulated OCL to interest expense or loss on early extinguishment of debt as appropriate. The Company records all derivatives at fair value in either prepaid expenses and other assets or accounts payable and accrued expenses on the accompanying condensed consolidated balance sheets.

The valuation of the interest rate swaps and caps is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. The Company incorporates credit valuation adjustments (CVA) to appropriately reflect its own nonperformance risk and the respective counterparty’s nonperformance risk. When assessing nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

Except for the CVA, all inputs used to measure fair value of the derivative financial instruments are Level 2 inputs. The Company has concluded that the inputs used to measure its CVA are Level 3 inputs. If the inputs used to measure fair value fall in different levels of the fair value hierarchy, the level in the fair value hierarchy within which the fair value measurement in its entirety falls shall be determined based on the lowest level input that is significant to the fair value measurement in its entirety.

The Company reviews the fair value hierarchy classifications each reporting period. Changes in the observability of the valuation attributes may result in a reclassification of certain financial assets or liabilities. Such reclassifications are reported as transfers into and out of Level 3, or between other levels, at the fair value at the beginning of the reporting period in which the changes occur. The Company assessed the impact of the CVA on the overall fair value of its derivative instruments and concluded that the CVA does not have a significant impact to the fair values as of September 30, 2013. As of September 30, 2013 and December 31, 2012, all derivative liabilities are categorized as Level 2.

Derivatives in Cash Flow Hedging Relationships:

The Company’s objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps and caps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated OCL and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the nine months ended September 30, 2013 and 2012, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings.

STRATEGIC HOTELS & RESORTS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Amounts reported in accumulated OCL related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. During the next twelve months, the Company estimates that an additional $12,997,000 will be reclassified as an increase to interest expense.

As of September 30, 2013, the Company had the following outstanding interest rate derivatives that were designated as cash flow hedges of interest rate risk:

Interest Rate Derivatives	Number of Instruments	Notional Amount (in thousands)
Interest rate swaps	2	$200,000
Interest rate swap	1	£69,010

At September 30, 2013 and December 31, 2012, the aggregate notional amount of the Company's domestic interest rate swaps designated as cash flow hedges was $200,000,000 and $200,000,000, respectively. The Company's current domestic swaps have fixed pay rates against LIBOR of 5.23% and 5.27% and maturity dates of December 2015 and February 2016, respectively.

In addition, at September 30, 2013 and December 31, 2012, the Company had a GBP LIBOR interest rate swap agreement with a notional amount of £69,010,000 and £71,070,000, respectively. The swap has a current fixed pay rate against GBP LIBOR of 5.72% and a maturity date of October 2013.

Derivatives Not Designated as Hedging Instruments:

Derivatives not designated as hedges are not speculative and are used to manage the Company's exposure to interest rate movements and other identified risks but do not meet hedge accounting requirements. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings. As of September 30, 2013, the Company had the following outstanding interest rate derivatives that were not designated as hedging instruments:

Interest Rate Derivatives	Number of Instruments	Notional Amount (in thousands)
Interest rate swaps	2	$200,000
Interest rate caps	4	$502,000

At September 30, 2013 and December 31, 2012, the aggregate notional amount of the Company's domestic interest rate swaps not designated as cash flow hedges was $200,000,000 and $200,000,000, respectively. The Company's current domestic swaps have fixed pay rates against LIBOR of 4.90% and 4.96% and maturity dates of September 2014 and December 2014, respectively.

At September 30, 2013 and December 31, 2012, the aggregate notional amount of the Company's interest rate cap agreements was $502,000,000 and $502,000,000, respectively. The Company's current interest rate caps have LIBOR strike rates ranging from 2.50% to 4.26% and maturity dates ranging from July 2014 to November 2015.

Fair Values of Derivative Instruments:

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the condensed consolidated balance sheets as of September 30, 2013 and December 31, 2012 (in thousands):

	Balance Sheet Location	Fair Value as of September 30, 2013	December 31, 2012
Derivatives in cash flow hedging relationships:			
Interest rate swaps	Accounts payable and accrued expenses	$(22,553)	$(33,929)
Derivatives not designated as hedging instruments:			
Interest rate swaps	Accounts payable and accrued expenses	$(10,284)	$(17,157)
Interest rate caps	Prepaid expenses and other assets	$97	$113

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STRATEGIC HOTELS & RESORTS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company does not have any fair value measurements using inputs based on quoted prices in active markets (Level 1) or significant unobservable inputs (Level 3) as of September 30, 2013 or December 31, 2012. The following tables reflect changes in interest rate swap liabilities categorized as Level 2 for the nine months ended September 30, 2013 and 2012 (in thousands):

Balance as of January 1, 2013	$(51,086)
Mark to market adjustments	18,249
Balance as of September 30, 2013	$(32,837)
Balance as of January 1, 2012	$(66,394)
Mark to market adjustments	9,157
Balance as of September 30, 2012	$(57,237)

Effect of Derivative Instruments on the Condensed Consolidated Statements of Operations:

The tables below present the effect of the Company's derivative financial instruments on the condensed consolidated statements of operations for the three and nine months ended September 30, 2013 and 2012 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Derivatives in Cash Flow Hedging Relationships				
Interest rate swaps:				
Effective portion of loss recognized in accumulated OCL	$(812)	$(1,099)	$(511)	$(4,332)
Effective portion of loss reclassified into interest expense	$(4,439)	$(5,317)	$(14,826)	$(16,255)
Ineffective portion of gain (loss) recognized in interest expense	$30	$(779)	$1	$(2,366)
Derivatives Not Designated as Hedging Instruments				
Interest rate swaps:				
Ineffective losses recognized in interest expense	$(201)	$(708)	$(305)	$(2,720)
Interest rate caps:				
Losses recognized in other (expenses) income, net	$(54)	$(68)	$(32)	$(71)

Credit-risk-related Contingent Features:

The Company has agreements with each of its derivative counterparties that contain a provision where if the Company defaults and its indebtedness is accelerated or declared due or capable of being accelerated or declared due, then the Company could also be declared in default on its derivative obligations associated with the relevant indebtedness.

As of September 30, 2013, the termination value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was $35,042,000. As of September 30, 2013, the Company has not posted any collateral related to these agreements. If the Company had breached any of these provisions at September 30, 2013, it would have been required to settle its obligations under the agreements at their termination value of $35,042,000. The Company has not breached any of the provisions as of September 30, 2013.

STRATEGIC HOTELS & RESORTS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. SHARE-BASED EMPLOYEE COMPENSATION PLANS

Second Amended and Restated 2004 Incentive Plan:

On June 21, 2004, SHR adopted the 2004 Incentive Plan (the Plan). The Plan provided for the grant of equity-based awards in the form of, among others, Options, RSUs, and stock appreciation rights (SARs), which are collectively referred to as the Awards. On May 22, 2008, SHR's shareholders approved SHR's Amended and Restated 2004 Incentive Plan (the Amended Plan). The Amended Plan: (a) added OP Units as an additional type of award; (b) adjusted the number of authorized shares from 3,000,000 shares of SHR common stock to 4,200,000 shares of SHR common stock or OP Units; (c) limited the maximum term of Options and SARs to no more than 10 years and prohibited the repricing of Options and SARs; and (d) established minimum vesting periods for certain awards. On May 19, 2011, SHR's shareholders approved SHR's Second Amended and Restated 2004 Incentive Plan (the Amended and Restated Plan) pursuant to which the number of securities authorized and reserved for issuance increased from 4,200,000 shares of SHR common stock or OP Units to 9,700,000 shares of SHR common stock or OP Units. The termination date of the Amended and Restated Plan was also extended from June 21, 2014 to December 31, 2016.

RSUs and Performance-Based RSUs:

In February 2013, SHR granted certain employees a target grant of 309,264 performance shares under a performance share plan that provides the recipient the opportunity to earn between zero and 160.0% of the target (up to a maximum of 494,822 performance shares), based on the relative total shareholder return of the shares of SHR common stock, as defined in the agreement, over the period from January 2, 2013 through December 31, 2015.

The Company recorded compensation expense of $1,150,000 and $967,000 related to RSUs and performance share awards (net of estimated forfeitures) for the three months ended September 30, 2013 and 2012, respectively, and $4,143,000 and $3,696,000 for the nine months ended September 30, 2013 and 2012, respectively. The compensation expense is recorded in corporate expenses on the accompanying condensed consolidated statements of operations. As of September 30, 2013, there was unrecognized compensation expense of $3,002,000 related to nonvested RSUs and $3,801,000 related to performance share awards granted under the Amended and Restated Plan. That cost is expected to be recognized over a weighted average period of 1.93 years for nonvested RSUs and 2.00 years for performance share awards.

Value Creation Plan and Deferral Program:

Under the provisions of the Company's Value Creation Plan, the Company paid 2.5% of SHR's market capitalization (limited to a maximum market capitalization based on no more than 174,828,353 shares of common stock) to the participants in the Value Creation Plan in 2012 because the highest average closing price of SHR's common stock during certain consecutive twenty trading day periods in 2012 was at least $4.00 (Normal Distribution Amount).

On June 29, 2011, SHR and its former president and chief executive officer, Laurence S. Geller, entered into the Strategic Hotels & Resorts, Inc. Value Creation Plan Normal Unit Distributions Deferral Election and Deferral Program (Deferral Program). Pursuant to the Deferral Program, Mr. Geller elected to defer up to 50% of his share of the Normal Distribution Amount payable pursuant to the Value Creation Plan and have such Normal Distribution Amount instead be converted into Deferral Program Stock Units on the basis of the fair market value of a share of SHR common stock at the time the Normal Distribution Amount would otherwise have been paid. Each Deferral Program Stock Unit was converted on a one-for-one basis into a share of SHR common stock on June 3, 2013.

Total compensation expense recognized in corporate expenses on the condensed consolidated statement of operations under the Value Creation Plan for the three and nine months ended September 30, 2012 was $(2,013,000) and $2,759,000, respectively. In April 2012, the Company paid the Value Creation Plan participants $18,357,000 pursuant to the Value Creation Plan and made a final settlement payment of $948,000 in January 2013. Additionally, during 2012, Mr. Geller earned 1,301,476 Deferral Program Stock Units in connection with the distribution of his share of the Normal Distribution Amount under the Value Creation Plan. In accordance with Mr. Geller's separation agreement, dated November 2, 2012, Mr. Geller's Deferral Program Stock Units outstanding settled in June 2013 in accordance with the terms of the Deferral Program.

12. RELATED PARTY TRANSACTIONS

Cory Warning, the son-in-law of Laurence Geller, the Company's former president and chief executive officer, previously served as Vice President, Investments for the Company. Mr. Warning's base salary in 2012 was $180,000 and Mr. Warning received cash bonuses in 2012 of $86,000. Mr. Warning received grants of RSUs of 4,698 in 2012 and a grant of 9,538 performance share awards in 2012. In 2010, Mr. Warning received a grant of 5,000 units under the Company's Value Creation Plan. In December 2012, the Company entered into a severance agreement with Mr. Warning and recorded $256,000 in corporate expenses for the year ended December 31, 2012. Under the severance agreement, all unvested RSUs and performance shares were forfeited.

13. COMMITMENTS AND CONTINGENCIES

Environmental Matters:

Generally, the properties acquired by the Company have been subjected to environmental site assessments. While some of these assessments have led to further investigation and sampling, none of the environmental assessments have revealed, nor is the Company aware of any environmental liability that it believes would have a material effect on its business or financial statements.

Litigation:

The Company is party to various claims and routine litigation arising in the ordinary course of business. Based on discussions with legal counsel, the Company does not believe that the results of these claims and litigation, individually or in the aggregate, will have a material effect on its business or financial statements.

Letters of Credit:

As of September 30, 2013, the Company provided a $150,000 letter of credit related to its office space lease, a $1,391,000 letter of credit in connection with an obligation to complete certain repairs to the underground parking garage at the Four Seasons Washington, D.C. hotel, and a $14,028,000 letter of credit in connection with an obligation to complete property improvements at the JW Marriott Essex House Hotel as described below.

Purchase Commitments:

Construction Contracts

The Company has executed various contracts related to construction activities. As of September 30, 2013, the Company’s obligations under these contracts amounted to approximately $2,178,000. The construction activities are expected to be completed by 2014.

JW Marriott Essex House Hotel Property Improvement Plan

As required by the JW Marriott Essex House Hotel management agreement, the Essex House Hotel Venture has an obligation to renovate and improve the property. As of September 30, 2013, the Essex House Hotel Venture's obligation under this agreement is approximately $8,791,000. The improvements are to be completed by December 2014.

Other Required Renovations

Under the provisions of various lender agreements, the Company is required to fund capital expenditures for property improvements and renovations. As of September 30, 2013, the Company's obligation under these agreements is approximately $21,478,000. As of September 30, 2013, the Company has $12,000,000 included in restricted cash reserves for capital expenditures related to property improvements and renovations required by certain lenders. The renovations are to be completed by December 2014.

14. FAIR VALUE OF FINANCIAL INSTRUMENTS

As of September 30, 2013 and December 31, 2012, the carrying amounts of certain financial instruments employed by the Company, including cash and cash equivalents, restricted cash and cash equivalents, accounts receivable, and accounts payable and accrued expenses were representative of their fair values because of the short-term maturity of these instruments.

At September 30, 2013 and December 31, 2012, the carrying value of the Company's mortgages and other debt payable and the bank credit facility was $1,299,567,000 and $1,322,297,000, respectively. At September 30, 2013 and December 31, 2012, the Company estimated the fair value of mortgages and other debt payable and the bank credit facility to be approximately $1,316,000,000 and $1,346,000,000, respectively.

The Company estimated the fair value of the debt using a future discounted cash flow analysis based on the use and weighting of multiple market inputs being considered. Based on the frequency and availability of market data, all inputs used to measure the estimated fair value of the debt are Level 2 inputs. The primary sensitivity in these calculations is based on the selection of appropriate discount rates.

Interest rate swap and cap agreements have been recorded at their estimated fair values.

STRATEGIC HOTELS & RESORTS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. GEOGRAPHIC AND BUSINESS SEGMENT INFORMATION

The Company operates in one reportable business segment, hotel ownership. As of September 30, 2013, the Company's foreign operations and long-lived assets consisted of one Mexican hotel property, two Mexican development sites, a 31% interest in a Mexican unconsolidated affiliate, and two European properties, including a leasehold interest in a German hotel property.

The following tables present revenues (excluding unconsolidated affiliates) and long-lived assets for the geographical areas in which the Company operates (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues:				
United States	$222,292	$189,276	$628,212	$531,042
Mexico	5,040	3,755	25,664	21,838
Europe	10,276	11,534	29,364	31,365
Total	$237,608	$204,565	$683,240	$584,245

	September 30, 2013	December 31, 2012
Long-lived Assets:		
United States	$1,776,840	$1,802,770
Mexico	117,060	144,392
Europe	90,856	94,388
Total	$1,984,756	$2,041,550

16. MANAGEMENT AGREEMENTS

JW Marriott Essex House Hotel Performance Guarantee

In connection with the acquisition of the JW Marriott Essex House Hotel in September 2012, the Essex House Hotel Venture entered into a management agreement with an affiliate of Marriott International, Inc. (Marriott). In connection with the management agreement, Marriott provided the Essex House Hotel Venture with a limited performance guarantee that will ensure, subject to certain limitations, a target level of net operating profit. Guarantee payments are calculated and paid to the Essex House Hotel Venture on a monthly basis based on the cumulative year-to-date results with a final true-up at the end of each year. Monthly interim payments are recorded as deferred revenue and are recognized as other hotel operating revenue at the end of the year when the final guarantee payment for the year is determined. The maximum guarantee that could be paid to the Essex House Hotel Venture during the guarantee period is $40,000,000. The guarantee period began on September 17, 2012 and will continue through the earlier of a) December 31, 2020, b) the date at which the maximum guarantee has been funded, or c) the termination of the management agreement. As of September 30, 2013, the Essex House Hotel Venture had $13,482,000 recorded as deferred revenues in accounts payable and accrued expenses on the condensed consolidated balance sheet.

Asset Management Agreements

The Company has entered into asset management agreements with unaffiliated third parties to provide asset management services to two hotels not owned by the Company. The Company earns base management fees and has the potential to earn additional incentive fees. The Company earned fees of $100,000 and $100,000 for the three months ended September 30, 2013 and 2012, respectively, and fees of $300,000 and $300,000 for the nine months ended September 30, 2013 and 2012, respectively, under these agreements, which are included in other (expenses) income, net in the condensed consolidated statements of operations.

17. SUBSEQUENT EVENT

In October 2013, the Company sold a property adjacent to the Fairmont Chicago hotel for $10,500,000 (see note 4).

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Note on Forward-Looking Statements

On one or more occasions, we may make statements regarding our assumptions, projections, expectations, targets, intentions or beliefs about future events. All statements other than statements of historical facts included or incorporated by reference in this Form 10-Q are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act).

Words or phrases such as "anticipates," "believes," "estimates," "expects," "intends," "may," "plans," "potential," "predicts," " "should," "targets," "will," "will continue," "will likely result" or other comparable expressions or the negative of these words phrases identify forward-looking statements. Forward-looking statements reflect our current views about future events and are subject to risks, uncertainties, assumptions and changes in circumstances that may cause actual results or outcomes to differ materially from those expressed in any forward-looking statement. We caution that while we make such statements in good faith and we believe such statements are based on reasonable assumptions, including without limitation, management's examination of historical operating trends, data contained in records and other data available from third parties, we cannot assure you that our projections will be achieved.

Some important factors that could cause actual results or outcomes for us to differ materially from these forward-looking statements are discussed in the cautionary statements contained in Exhibit 99.1 to this Form 10-Q, which are incorporated herein by reference. In assessing forward-looking statements contained herein, readers are urged to read carefully all cautionary statements contained in this Form 10-Q.

Overview

We were incorporated in Maryland in January 2004 to acquire and asset-manage upper upscale and luxury hotels (as defined by Smith Travel Research). Our accounting predecessor, Strategic Hotel Capital, L.L.C. (SHC LLC), was founded in 1997. We made an election to be taxed as a real estate investment trust (REIT) under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the Tax Code). On June 29, 2004, we completed our initial public offering (IPO) of our common stock. Prior to the IPO, 21 hotel interests were owned by SHC LLC. Concurrent with and as part of the transactions relating to the IPO, a reverse spin-off distribution to shareholders separated SHC LLC into two companies, a new, privately-held SHC LLC, with interests, at that time, in seven hotels and Strategic Hotels & Resorts, Inc. (SHR), a public entity with interests, at that time, in 14 hotels. See "Item 1. Financial Statements -1. General" for the hotel interests owned or leased by us as of September 30, 2013.

We operate as a self-administered and self-managed REIT, which means that we are managed by our board of directors and executive officers. A REIT is a legal entity that holds real estate interests and, through payments of dividends to stockholders, is permitted to reduce or avoid federal income taxes at the corporate level. To continue to qualify as a REIT, we cannot operate hotels; instead we employ internationally known hotel management companies to operate our hotels under management contracts. We conduct our operations through our direct and indirect subsidiaries including our operating partnership, Strategic Hotel Funding, L.L.C. (SH Funding), which currently holds substantially all of our assets. We are the managing member of SH Funding and hold approximately 99% of its membership units as of September 30, 2013. We manage all business aspects of SH Funding, including the sale and purchase of hotels, the investment in these hotels and the financing of SH Funding and its assets.

Throughout this "Management's Discussion and Analysis of Financial Condition and Results of Operations" section, references to "we", "our", "us", and "the Company" are references to SHR together, except as the context otherwise requires, with its consolidated subsidiaries, including SH Funding.

When presenting the U.S. dollar equivalent amount for any amounts expressed in a foreign currency, the U.S. dollar equivalent amount has been computed based on the exchange rate on the date of the transaction or the exchange rate prevailing on September 30, 2013, as applicable, unless otherwise noted.

Key Indicators of Operating Performance

We evaluate the operating performance of our business using a variety of operating and other information that includes financial information prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) such as total revenues, operating income (loss), net income (loss), and earnings per share, as well as non-GAAP financial information. In addition, we use other information that may not be financial in nature, including statistical information and comparative data. We use this information to measure the performance of individual hotels, groups of hotels, and/or our

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business as a whole. Key indicators that we evaluate include average daily occupancy, average daily rate (ADR), revenue per available room (RevPAR), and Total RevPAR, which are more fully discussed under "—Factors Affecting Our Results of Operations—Revenues." We also evaluate Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA), Comparable EBITDA, Funds from Operations (FFO), FFO-Fully Diluted, and Comparable FFO as supplemental non-GAAP measures to GAAP performance measures. We provide a more detailed discussion of the non-GAAP financial measures under "—Non-GAAP Financial Measures."

Outlook

The lodging industry began its recovery in the first quarter of 2010, after one of the worst downturns in its history. Luxury demand, in which our portfolio has the highest concentration of assets, has experienced positive RevPAR growth since that time. RevPAR gains continued in the third quarter of 2013, driven by improved demand in transient business and increases in average room rates.

The third quarter of 2013 represented the fourteenth consecutive quarter of RevPAR growth and profit margin expansion for our Same Store North American portfolio. Same Store Assets (see "- Total Portfolio and Same Store Assets Definitions" below) located in North America, which excludes hotels owned through unconsolidated affiliates and those owned for less than five quarters, increased 2.7 percentage points in occupancy, primarily driven by a 6.8% increase in transient room nights compared to the quarter ended September 30, 2012. ADR at our North American Same Store Assets increased 7.2% in the third quarter of 2013, as a result of a 7.2% increase in transient rate and a 6.2% increase in group rate, compared to the third quarter of 2012. For the quarter ended September 30, 2013, RevPAR in this portfolio increased 10.8% and Total RevPAR increased 8.7%, compared to the quarter ended September 30, 2012.

Our total North American portfolio of 16 hotels includes our unconsolidated affiliates at the Hotel del Coronado and Fairmont Scottsdale Princess hotel and the JW Marriott Essex House Hotel, which we acquired on September 14, 2012. We believe that providing the operating results on this portfolio, as well as the results of our Same Store Assets, is a better reflection of the operating trends of our business. For the quarter ended September 30, 2013, RevPAR for our total North American portfolio increased 10.7%, driven by a 7.4% increase in ADR and a 2.3 percentage point increase in occupancy, compared to the quarter ended September 30, 2012.

The performance of our asset in Mexico, the Four Seasons Punta Mita Resort, has lagged the recovery of the rest of our portfolio as the hotel continues to be impacted by broad based security concerns in Mexico. However, for the third quarter of 2013, ADR at the Four Seasons Punta Mita Resort increased 23.1%, leading to a 48.9% increase in RevPAR, compared to the quarter ended September 30, 2012.

As we assess lodging supply and demand dynamics looking forward, we are optimistic about the long-term prospects for a sustained recovery, particularly in the product niche and markets in which we own assets. Group bookings pace remains our best forward indicator of demand. For our total North American portfolio of hotels, definite group room nights for 2013 as of September 30, 2013 are up 2.8% compared to the same time last year and booked at 4.2% higher rates. For 2014, definite group room nights as of September 30, 2013 are up 8.8% compared to the same time last year and booked at 4.1% higher rates. New supply in the luxury and upper upscale segments remains very well contained in our markets and the current significant gap between hotel trading values and replacement costs bodes favorably for very limited supply growth into the future.

During the lodging downturn we implemented hotel specific contingency plans designed to reduce costs and maximize efficiency at each hotel. These include, but are not limited to, adjusting variable labor, eliminating certain fixed labor, and reducing the hours of room service operations and other food and beverage outlets. We believe the cost structures of our hotels have been fundamentally redesigned to sustain many of the cost reductions, even during periods of rising lodging demand. Therefore, we are optimistic that improving lodging demand will lead to increases in ADR and drive significant profit margin expansion throughout our portfolio.

European Strategy

We previously announced our intention to exit our assets in Europe in an orderly process designed to maximize proceeds. Since that time, we sold the Renaissance Paris Hotel LeParc Trocadero (Renaissance Paris), the InterContinental Prague hotel and our leasehold interest in the Paris Marriott hotel. Our remaining European assets are the Marriott London Grosvenor Square hotel and our leasehold interest in the Marriott Hamburg hotel. We continue to opportunistically explore options to exit these investments, including hiring a hotel brokerage and investment firm to advise us on the marketing and sale of the Marriott London Grosvenor Square hotel, and still intend to be North American-centric with respect to any new acquisitions.

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Factors Affecting Our Results of Operations

Acquisition of Interest in Consolidated Property. On September 14, 2012, we closed on the acquisition of the JW Marriott Essex House Hotel for approximately $350.3 million, net of prorations. In connection with the closing of the hotel acquisition, we entered into joint venture agreements with affiliates of KSL Capital Partners, LLC (Essex House Hotel Venture) to fund the equity portion of the purchase price. We have a 51% controlling interest in the Essex House Hotel Venture and serve as managing member and asset manager.

Unconsolidated Affiliates. On December 17, 2012, we increased our ownership interest in the Hotel del Coronado to 36.4%.

On June 14, 2013, we entered into an amended and restated venture agreement with an unaffiliated third party, forming the Lot H5 Venture. The Lot H5 Venture owns the Lot H5 land parcel, an undeveloped, oceanfront land parcel in Punta Mita, Nayarit, Mexico. We have a preferred position in the Lot H5 Venture that entitles us to receive the first $12.0 million of distributions generated from the Lot H5 Venture, with any excess distributions split equally between the partners. We jointly control the Lot H5 Venture with our partner and account for our interest in the Lot H5 Venture as an equity method investment.

Total Portfolio and Same Store Assets Definitions. We define our Total Portfolio as properties that we wholly or partially own or lease and whose operations are included in our consolidated operating results. The Total Portfolio excludes all sold properties and assets held for sale, if any, included in discontinued operations.

We present certain information about our hotel operating results on a comparable hotel basis, which we refer to as our Same Store analysis. We define our Same Store Assets as those hotels (a) that are owned or leased by us, and whose operations are included in our consolidated operating results and (b) for which we reported operating results throughout the entire reporting periods presented.

Our Same Store Assets for purposes of the comparison of the three and nine months ended September 30, 2013 and 2012 exclude the JW Marriott Essex House Hotel, unconsolidated affiliates, and all sold properties and assets held for sale, if any, included in discontinued operations.

We present these results of Same Store Assets because we believe that doing so provides useful information for evaluating the period-to-period performance of our hotels and facilitates comparisons with other hotel REITs and hotel owners. In particular, these measures assist in distinguishing whether increases or decreases in revenues and/or expenses are due to operations of the Same Store Assets or from acquisition or disposition activity.

Revenues. Substantially all of our revenue is derived from the operation of our hotels. Specifically, our revenue for the nine months ended September 30, 2013 and 2012 consisted of:

	Total Portfolio % of Total Revenues		Same Store Assets % of Total Revenues	
	2013	2012	2013	2012
Revenues:				
Rooms	57.5 %	55.4 %	55.5 %	55.3 %
Food and beverage	32.4 %	33.8 %	33.6 %	33.9 %
Other hotel operating revenue	9.5 %	10.2 %	10.3 %	10.2 %
Lease revenue	0.6 %	0.6 %	0.6 %	0.6 %
Total revenues	100.0 %	100.0 %	100.0 %	100.0 %

- Rooms revenue. Occupancy and ADR are the major drivers of rooms revenue.
- Food and beverage revenue. Occupancy, local catering and banquet events are the major drivers of food and beverage revenue.
- Other hotel operating revenue. Other hotel operating revenue consists primarily of cancellation fees, spa, telephone, parking, golf course, Internet access, space rentals, retail and other guest services and is also driven by occupancy.
- Lease revenue. We sublease our interest in the Marriott Hamburg to a third party and earn annual base rent plus additional rent contingent on the hotel meeting performance thresholds.

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Changes in our revenues are most easily explained by performance indicators that are used in the hotel real estate industry:

- average daily occupancy;
- ADR, which stands for average daily rate, is equal to rooms revenue divided by the number of occupied rooms;
- RevPAR, which stands for revenue per available room, is equal to rooms revenue divided by the number of rooms available; and
- Total RevPAR, which stands for total revenue per available room, is equal to the sum of rooms revenue, food and beverage revenue and other hotel operating revenue, divided by the number of rooms available.

For purposes of calculating our Total Portfolio RevPAR for the three and nine months ended September 30, 2013 and 2012, we exclude unconsolidated affiliates, discontinued operations, if any, and the Marriott Hamburg because we sublease the operations of the hotel and only record lease revenue. Same Store Assets RevPAR is calculated in the same manner as Total Portfolio RevPAR but also excludes the JW Marriott Essex House Hotel for the three and nine months ended September 30, 2013 and 2012. These methods for calculating RevPAR each period are consistently applied through the remainder of this “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and should be taken into consideration wherever RevPAR results are disclosed.

We generate a significant portion of our revenue from two broad categories of customers, transient and group.

Our transient customers include individual or group business and leisure travelers that occupy fewer than 10 rooms per night. Transient customers for our Total Portfolio accounted for approximately 63.2% and 59.9% of the rooms sold during the nine months ended September 30, 2013 and 2012, respectively. We divide our transient customers into the following subcategories:

- Transient Leisure – This category generates the highest room rates and includes travelers that receive published rates offered to the general public that do not have access to negotiated or discounted rates.
- Transient Negotiated – This category includes travelers, who are typically associated with companies and organizations that generate high volumes of business, that receive negotiated rates that are lower than the published rates offered to the general public.

Our group customers include groups of 10 or more individuals that occupy 10 or more rooms per night. Group customers for our Total Portfolio accounted for approximately 36.8% and 40.1% of the rooms sold during the nine months ended September 30, 2013 and 2012, respectively. We divide our group customers into the following subcategories:

- Group Association – This category includes group bookings related to national and regional association meetings and conventions.
- Group Corporate – This category includes group bookings related to corporate business.
- Group Other – This category generally includes group bookings related to social, military, education, religious, fraternal and youth and amateur sports teams.

Fluctuations in revenues, which, for our domestic hotels, historically have been correlated with changes in the United States gross domestic product (U.S. GDP), are driven largely by general economic and local market conditions, which in turn affect levels of business and leisure travel. Guest demographics also affect our revenues. During 2012 and the first three quarters of 2013, demand at our hotels increased, despite tepid U.S. GDP growth, which we believe reflects the relative strength of our primary customer demographics, particularly U.S. based corporations and affluent transient travelers.

In addition to economic conditions, supply is another important factor that can affect revenues. Room rates and occupancy tend to fall when supply increases unless the supply growth is offset by an equal or greater increase in demand. One reason we target upper upscale and luxury hotels in select urban and resort markets, including major business centers and leisure destinations, is because they tend to be in locations that have greater supply constraints such as lack of available land, high development costs, long development and entitlement lead times, and brand trade area restrictions that prevent the addition of a certain brand or brands in close proximity. Nevertheless, our hotels are not insulated from competitive pressures and our hotel operators will lower room rates to compete more aggressively for guests in periods when occupancy declines.

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Hotel Operating Expenses. Our hotel operating expenses for the nine months ended September 30, 2013 and 2012 consisted of the costs and expenses to provide hotel services, including:

	Total Portfolio % of Total Hotel Operating Expenses		Same Store Assets % of Total Hotel Operating Expenses	
	2013	2012	2013	2012
Hotel Operating Expenses:				
Rooms	21.1 %	20.3 %	20.3 %	20.3 %
Food and beverage	32.6 %	32.1 %	32.7 %	32.2 %
Other departmental expenses	33.2 %	34.5 %	34.1 %	34.6 %
Management fees	4.0 %	4.0 %	4.2 %	4.1 %
Other hotel expenses	9.1 %	9.1 %	8.7 %	8.8 %
Total hotel operating expenses	100.0 %	100.0 %	100.0 %	100.0 %

- Rooms expense. Occupancy is a major driver of rooms expense, which has a significant correlation with rooms revenue.
- Food and beverage expense. Occupancy, local catering and banquet events are the major drivers of food and beverage expense, which has a significant correlation with food and beverage revenue.
- Other departmental expenses. Other departmental expenses consist of general and administrative, marketing, repairs and maintenance, utilities and expenses related to earning other operating revenue.
- Management fees. We pay base and incentive management fees to our hotel operators. Base management fees are computed as a percentage of revenue. Incentive management fees are incurred when operating profits exceed levels prescribed in our management agreements.
- Other hotel expenses. Other hotel expenses consist primarily of insurance costs and property taxes.

Salaries, wages and related benefits are included within the categories of hotel operating expenses described above and represented approximately 50.2% and 49.0% of the Total Portfolio total hotel operating expenses for the nine months ended September 30, 2013 and 2012, respectively.

Most categories of variable operating expenses, such as utilities and certain labor such as housekeeping, fluctuate with changes in occupancy. Increases in RevPAR attributable to increases in occupancy are accompanied by increases in most categories of variable operating costs and expenses while increases in RevPAR attributable to increases in ADR typically only result in increases in limited categories of operating costs and expenses, such as management fees charged by our operators, which are based on hotel revenues. Thus, changes in ADR have a more significant impact on operating margins.

Lease Expense. As a result of the sale-leaseback transaction of the Marriott Hamburg hotel, we record lease expense in our condensed consolidated statements of operations. In conjunction with the sale-leaseback transaction, we also recorded a deferred gain, which is amortized as an offset to lease expense.

Corporate Expenses. Corporate expenses include payroll and related costs, professional fees, travel expenses, office rent and acquisition costs.

Recent Events. In addition to the changes to the consolidated hotel properties and unconsolidated affiliates noted above, we expect that the following events will cause our future results of operations to differ from our historical performance:

Impairment Losses. In January 2012, we acquired, at a discount to par value, a note receivable that is secured by a property adjacent to the Fairmont Chicago hotel for $10.5 million. In the third quarter of 2013, we completed foreclosure proceedings and obtained title to the asset. After taking title to the asset, we elected to sell the asset. Based on the change in the anticipated holding period for this asset, we performed an impairment test of the long-lived assets during the third quarter of 2013 and recorded an impairment loss of $0.7 million during the three and nine months ended September 30, 2013. In October 2013, we sold the property to an unaffiliated third party.

Mortgage Loan Agreements. On September 9, 2013, we amended the mortgage agreements secured by the Fairmont Chicago and Westin St. Francis hotels. The amendment eliminates future principal amortization payments subject to meeting certain financial and other requirements.

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On August 7, 2013, we entered into an amendment to the mortgage loan secured by the Marriott London Grosvenor Square hotel. The amendment extended the maturity of the loan to October 2014 and waived the July 2013 and subsequent principal payments through the extended term. Pursuant to the amendment, the spread over GBP LIBOR increases in steps during the extension period from GBP LIBOR plus 2.10% in August 2013 to GBP LIBOR plus 4.25% in April 2014.

On November 1, 2012, we refinanced and decreased the loan secured by the Hyatt Regency La Jolla hotel to $90.0 million with interest payable monthly at LIBOR plus 4.00%, subject to a 0.50% LIBOR floor, for $72.0 million of the principal balance and interest payable monthly at an annual fixed rate of 10.00% for $18.0 million of the principal balance. The loan has a maturity date of December 1, 2017.

Ground Lease Amendment. In February 2013, we amended the ground lease agreement at the Marriott Lincolnshire Resort. The amendment extended the term of the lease through December 31, 2112 and changed the annual rent payments to a fixed amount, subject to indexation.

Common Stock. On April 23, 2012, we completed a public offering of common stock by issuing 18.4 million shares at a public offering price of $6.50 per share. After underwriting discounts and commissions and transaction expenses, we raised net proceeds of approximately $114.1 million. These proceeds were used for general corporate purposes, including, without limitation, reducing our borrowings under our secured bank credit facility, funding the payment of accrued and unpaid preferred dividends, repaying other debt and funding capital expenditures and working capital.

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Comparison of Three Months Ended September 30, 2013 to Three Months Ended September 30, 2012

Operating Results

The following table presents the operating results for the three months ended September 30, 2013 and 2012, including the amount and percentage change in these results between the two periods of our Total Portfolio and Same Store Assets (in thousands, except operating data).

	Total Portfolio				Same Store Assets			
	2013	2012	Change ($) Favorable/ (Unfavorable)	Change (%) Favorable/ (Unfavorable)	2013	2012	Change ($) Favorable/ (Unfavorable)	Change (%) Favorable/ (Unfavorable)
Revenues:								
Rooms	$144,150	$119,067	$25,083	21.1 %	$127,729	$116,149	$11,580	10.0 %
Food and beverage	69,625	63,283	6,342	10.0 %	66,129	62,424	3,705	5.9 %
Other hotel operating revenue	22,417	21,040	1,377	6.5 %	21,893	20,950	943	4.5 %
Lease revenue	1,416	1,175	241	20.5 %	1,416	1,175	241	20.5 %
Total revenues	237,608	204,565	33,043	16.2 %	217,167	200,698	16,469	8.2 %
Operating Costs and Expenses:								
Hotel operating expenses	176,080	152,502	(23,578)	(15.5)%	156,944	149,509	(7,435)	(5.0)%
Lease expense	1,202	1,114	(88)	(7.9)%	1,202	1,114	(88)	(7.9)%
Depreciation and amortization	26,244	25,649	(595)	(2.3)%	22,943	24,965	2,022	8.1 %
Impairment losses and other charges	728	—	(728)	(100.0)%	—	—	—	— %
Corporate expenses	5,487	6,956	1,469	21.1 %	—	—	—	—
Total operating costs and expenses	209,741	186,221	(23,520)	(12.6)%	181,089	175,588	(5,501)	(3.1)%
Operating income	27,867	18,344	9,523	51.9 %	36,078	25,110	10,968	43.7 %
Interest expense, net	(21,094)	(19,900)	(1,194)	(6.0)%				
Loss on early extinguishment of debt	—	—	—	— %				
Loss on early termination of derivative financial instruments	—	—	—	— %				
Equity in earnings (losses) of unconsolidated affiliates	451	(2,257)	2,708	120.0 %				
Foreign currency exchange loss	(9)	(996)	987	99.1 %				
Other (expenses) income, net	(832)	436	(1,268)	(290.8)%				
Income (loss) before income taxes	6,383	(4,373)	10,756	246.0 %				

Income tax benefit	430	600	(170)